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BEFORE THE ARIZONA CORPORATION COMMISSIONCOMMISSIONERS

Arizona Corporation Commission

DOCKETED

FEB 02 2006

JEFF HATCH-MILLER Chairman
 WILLIAM A. MUNDELL
 MARC SPITZER
 MIKE GLEASON
 KRISTIN K. MAYES

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
 WATER UTILITY OF GREATER TONOPAH FOR
 AUTHORITY TO ISSUE DEBT.

DOCKET NO. W-02450A-05-0607

DECISION NO. 68452ORDER

Open Meeting
 January 24 and 25, 2006
 Phoenix, Arizona

BY THE COMMISSION:

On August 24, 2005, Water Utility of Greater Tonopah ("Applicant") filed with the Arizona Corporation Commission ("Commission") an application requesting authorization to issue long-term debt to the Water Infrastructure Financing Authority ("WIFA") in an amount not to exceed \$527,000.

On October 12, 2005, Applicant filed an amended application requesting the amount be reduced to \$500,000.

On October 19, 2005, Applicant filed certification that it had provided notice of the application by publishing in a newspaper of general circulation.

On December 15, 2005, the Commission's Utilities Division Staff ("Staff") filed its Staff Report, recommending approval of the application.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. Pursuant to authority granted by the Commission, Applicant is an Arizona corporation that provides water service in and around Hassayampa River, Maricopa County, Arizona. As of

1 December 31, 2004, Applicant provided water service to approximately 214 customers.

2 2. On August 24, 2005, Applicant, as authorized by its Board of Directors, filed with the
3 Commission an application requesting authorization to issue long-term debt to WIFA in an amount
4 not to exceed \$527,000.

5 3. On September 30, 2005, Applicant filed an Amended Financing Application, changing
6 the requested loan amount to \$628,000.

7 4. On October 12, 2005, Applicant filed a Second Amendment to Financing Application,
8 indicating that although the Applicant's Board of Directors authorized securing a loan of up to
9 \$628,000, Applicant limited its request for WIFA financing to an amount not to exceed \$500,000.

10 5. On October 19, 2005, Applicant filed certification that it caused notice of the
11 application to be published in the *West Valley View*, a newspaper of general circulation in Applicant's
12 service area.

13 6. On December 15, 2005, Staff filed its Staff Report, recommending approval of the
14 application with conditions.

15 7. Applicant's request for issuance of debt arises from rules established by the United
16 States Environmental Protection Agency ("EPA") that require the maximum contaminant level for
17 arsenic in potable water to be reduced from 50 parts per billion ("ppb") to 10 ppb, effective January
18 23, 2006.

19 8. The proposed financing will be used for the construction of a water treatment plant to
20 remove arsenic from Applicant's water system in order to meet the new EPA and Arizona
21 Department of Environmental Quality ("ADEQ") standards.

22 9. Staff stated that it examined the construction plans and estimated costs for Applicant's
23 water treatment project and found them to be reasonable and appropriate.

24 10. Staff stated that the proposed financing is for a 20-year loan which is to be amortized
25 at an estimated interest rate of 4.55 percent.

26 11. Staff performed an analysis of Applicant's financial statements based on the twelve-
27 month period ended December 31, 2004.

28 12. For the period ending December 31, 2005, Applicant's capital structure is projected to

1 consist of 1.61 percent short-term debt, 39.61 percent long-term debt, and 58.78 percent equity.

2 13. Staff's analysis showed that if Applicant were to draw the entire \$500,000, the
3 resulting pro forma capital structure would consist of approximately 2.66 percent short-term debt,
4 79.04 percent long-term debt and 18.30 percent equity.

5 14. The Debt Service Coverage ("DSC") ratio represents the number of times internally
6 generated cash will cover required principal and interest payments on long-term debt. A DSC ratio
7 greater than 1.0 means that operating cash flow is sufficient to cover debt obligations. A DSC less
8 than 1.0 means that debt service obligations cannot be met from operations and that another source of
9 funds is needed to avoid default.

10 15. The Times Interest Earned Ratio ("TIER") represents the number of times earnings
11 will cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that
12 operating income is greater than interest expense. A TIER of less than 1.0 is not sustainable in the
13 long term but does not necessarily mean that debt obligations cannot be met in the short term.

14 16. Based on its analysis of the projected 2005 financial statements, Staff determined that
15 the pro forma effect of Applicant's proposed \$500,000 loan if fully drawn would be a change of the
16 Applicant's TIER from negative 5.29 to negative 0.81 and a lowering of the Applicant's DSC from
17 8.12 to 1.27¹. Staff concluded that the pro forma DSC ratio shows that the Applicant does have
18 adequate cash flow to make interest payments on the proposed debt. However, the Applicant's TIER
19 indicates that the Company's income is insufficient to support the proposed loan in the long term.

20 17. Applicant seeks WIFA financing approval for arsenic treatment of six of its seven
21 wells regulated by the Commission. The current arsenic levels of these wells range from 50 ppb to
22 11 ppb.

23 18. A Staff engineer reviewed the Applicant's proposal and found the estimated project
24 costs provided by the Applicant to be reasonable and appropriate. Staff further stated that no "used
25 and useful" determination was made and no conclusions should be inferred for ratemaking or rate
26 base purposes.

27 _____
28 ¹ Staff stated that the negative TIER indicates that the Company's income is insufficient to support the proposed loan in the long term.

19. Staff concluded that the capital structure that would result from the incurrence of the proposed debt is acceptable in the short-term. However, Staff believes that this capital structure is outside the desirable range for the long-term.

20. Based on Staff's concerns for Applicant's long term capital structure, Staff recommends approval of the Applicant's application for authorization to issue long-term debt to WIFA in an amount not to exceed \$500,00 subject to the following conditions:

a. Applicant is required to file with Docket Control, as a compliance item in this docket, for an increase in permanent rates in 2007 with a 2006 test year unless Applicant can demonstrate to Staff's satisfaction that its TIER will increase to 1.0 or greater by December 31, 2006.

b. Applicant is ordered to file with Docket Control, as a compliance item in this docket, a plan within 30 days of the date of a decision in this proceeding detailing how it will increase its equity to a minimum of 40 percent. Compliance with this condition shall be recognized only if Staff finds the plan acceptable.

21. Because an allowance for the property tax expense of Applicant is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventative measure Applicant annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the company is current in paying its property taxes in Arizona.

22. Staff's recommendations are reasonable and appropriate, however, we will allow 90 days to file the equity plan.

CONCLUSIONS OF LAW

1. Applicant is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-285, 40-301 and 40-302.

2. The Commission has jurisdiction over Applicant and the subject matter of the

1 application.

2 3. Notice of the application was given in accordance with the law.

3 4. The financing approved herein is for lawful purposes within Applicant's corporate
4 powers, is compatible with the public interest, with sound financial practices, and with the proper
5 performance by Applicant of service as a public service corporation, and will not impair Applicant's
6 ability to perform that service.

7 5. The financing approved herein is for the purposes stated in the application and is
8 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
9 chargeable to operating expenses or to income.

10 **ORDER**

11 IT IS THEREFORE ORDERED that the application of Water Utility of Greater Tonopah for
12 authority to issue long-term debt to the Water Infrastructure Financing Authority in an amount not to
13 exceed \$500,000 is hereby approved.

14 IT IS FURTHER ORDERED that the Water Utility of Greater Tonopah must file with Docket
15 Control, as a compliance item in this docket, for an increase in permanent rates in 2007 with a 2006
16 test year unless the Water Utility of Greater Tonopah demonstrates to Staff's satisfaction that its
17 times interest earned ratio will increase to 1.0 or greater by December 31, 2006.

18 IT IS FURTHER ORDERED that the Water Utility of Greater Tonopah is ordered to file with
19 Docket Control, as a compliance item in this docket, a plan within 90 days of this Decision detailing
20 how it will increase its equity to a minimum of 40 percent. Compliance with this condition shall be
21 recognized only if Staff finds the plan acceptable

22 IT IS FURTHER ORDERED that Water Utility of Greater Tonopah is hereby authorized to
23 engage in any transactions and to execute any documents necessary to effectuate the authorization
24 granted herein.

25 IT IS FURTHER ORDERED that such authority is expressly contingent upon Water Utility
26 of Greater Tonopah's use of the proceeds for the purposes set forth in its application.

IT IS FURTHER ORDERED that approval of the financing set forth herein does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that Water Utility of Greater Tonopah shall file with the Commission copies of all executed financing documents setting forth the terms of the financing, within 90 days of obtaining such financing.

IT IS FURTHER ORDERED that Water Utility of Greater Tonopah shall annually file as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

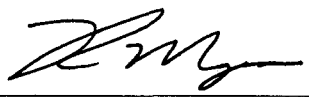
BY ORDER OF THE ARIZONA CORPORATION COMMISSION.


CHAIRMAN


COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 2nd day of Feb., 2006.


BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

AB:mj

1 SERVICE LIST FOR:

WATER UTILITY OF GREATER TONOPAH

2 DOCKET NO.:

W-02450A-05-0607

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